

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SSO-00 NSCE-00 USIE-00 INRE-00
CIAE-00 DODE-00 PM-05 H-01 INR-07 L-03 NSAE-00
PA-01 PRS-01 SP-02 SS-15 ACDA-12 TRSE-00 IO-13
AID-05 COME-00 EB-08 FRB-03 XMB-02 OPIC-03 LAB-04
SIL-01 OMB-01 NEA-10 (ISO) W
-----080603 201446Z /44

O R 201220Z JAN 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC IMMEDIATE 5006
INFO AMEMBASSY BERLIN
AMEMBASSY BRUSSELS
AMEMBASSY BUCHAREST
AMEMBASSY LONDON
AMEMBASSY MOSCOW
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY WARSAW
AMCONSUL BREMEN
AMCONSUL DUSSELDORF
AMCONSUL FRANKFURT
AMCONSUL HAMBURG
AMCONSUL MUNICH
AMCONSUL STUTTGART
USMISSION USBERLIN
USMISSION USNATO

C O N F I D E N T I A L SECTION 01 OF 02 BONN 01105

USEEC, USOECD ALSO FOR EMBASSY

E.O. 11652: GDS
TAGS: PEPR, EGEN, EFIN, ENRG, GW, US, XA, XG, XH, XT
SUBJECT: CHANCELLOR SCHMIDT'S GOVERNMENT DECLARATION
JANUARY 19 - ANALYSIS

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REF: BONN 01078

1. REFTEL UMMARIZED SCHMIDT'S 90-MINUTE STATEMENT.
FOLLOWING IS AN ANALYSIS OF SIGNIFICANT POINTS FOR THE
U.S.

2. MORE THAN MOST OF SCHMIDT'S SPEECHES, INCLUDING

MAJOR OVERALL STATEMENTS, THIS ONE FOCUSENON FOREIGN AFFAIRS. IN PEHT, THIS SERVED TO UNDERSCORE THAT, IN CONTRAST TO OTHERS ON THE BONN SCENE, SCHMIDT IS A STATESMAN WITH RESPONSIBILITIES BEYOND DOMESTIC POLITICS. IN PART, IT GAVE A FRAMEWORK FOR DEFENDING HIS GOVERNMENT'S POSITIVE APPROACH TO INNER-GERMAN RELATIONS, UNDER ATTACK BY THE OPPOSITION FOLLOWING THE "SPIEGEL MANIFESTO." SIGNIFICANTLY, HOWEVER, SCHMIDT'S EMPHASIS ALSO REFLECTS ACCURATELY THE FRG'S GROWING ITEIGHT AND ACTIVISM ON THE INTERNATIONAL SCENE, INCLUDING IN NORTH-SOUTH ISSUES, CONTACTS WITH EASTERN NATIONS, AND AS AN INCREASINGLY AUTHORITATIVE SPOKESMAN FOR EUROPE -- A ROLE THAT WILL BE HDGHTENED IN JULY WHEN THE FRG ASSUMES THE EC COUNCIL PRESIDENCY, HOSTS THE BC-NINE SUMMIT, AND HOSTS THE WORLD ECONOMIC SUMMIT.

3. IN THIS CONTEXT, SCHMIDT SPOKE TO THE U.S. MORE THAN TO ANY OTHER FOREIGN AUDIENCE. HIS MESSAGE WAS A COMBINATION OF FRIENDLINESS -- OFTEN BORDERING ON FLATTERY -- AND FIRMNESS. SCHMIDT NOT ONLY PRAISED THE U.S. FOR ITS VALUES AND, ALMOST EFFUSIVELY, FOR ITS TIES AND COMMITMENTS TO EUROPE; HE ALSO EXHORTED OTHER ALLIES TO TAKE GREATER NOTE OF THE TRANS-ATLANTIC RELATIONSHIP.

4. THE FIRMNESS TOWARD THE U.S. AND OTHERS ABROAD WAS IN THE ECONOMIC AREA, WHERE SCHMIDT PLACED AUTHORITATIVELY CONFIDENTIAL

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ON RECORD HIS VIEWS, WHICH WE CAN EXPECT TO BE REITERATED AS THE BILATERAL AND ECONOMIC SUMMITS APPROACH.

5. SCHMIDT WELCOMED PRESIDENT CARTER'S STATEMENT ON THE IMPORTANCE OF A STRONG DOLLAR AND STRESSED THAT IT WAS NOT A GERMAN EXTERNAL DISEQUILIBRIUM WHICH CAUSED THE UPWARD PRESSURE ON THE DM, SINCE THE GERMAN CURRENT ACCOUNT SURPLUS HW DECREASED CONTINUALLY SINCE 1974 AND THE OVERALL BALANCE OF PAYMENTS WAS ALMOST IN EQUILIBRIUM UNTIL THIS FALL. SCHMIDT SAID THAT THE CURRENT GERMAN PROGRAMS OF TAX REDUCTIONS AND PUBLIC INVESTMENTS MEET THE FEDERAL REPUBLIC'S INTERNATIONAL RESPONSIBILITIES. HE REJECTED PRESSURE FROM ABROAD FOR FURTHER INCREASES IN GERMAN GOVERNMENT DEFICITS. HE COMPARED THE TOTAL DEFICIT OF ALL LEVELS OF GOVERNMENT IN THE FEDERAL REPUBLIC AT 4 PERCENT OF GNP WITH ONE OF ONLY 1 PERCENT OF GNP IN THE U.S. AND REJECTED ANY FURTHER INCREASES IN THE FRG AS INFLATIONARY. "WE ARE DOING ALL WE CAN -- NO MORE IS TO BE EXPECTED" WAS HIS MESSAGE IN A NUTSHELL, AND WAS ADDRESSED BOTH TO U.S. AND OTHER FOREIGN CRITICS AS WELL AS TO GERMAN BUSINESS AND LABOR. THE LATTER GROUPS WERE TOLD IN EFFECT NOT TO EXPECT TO BE

BAILED OUT BY THE GOVERNMENT IF THEY ARRIVED AT
TOO HIGH WAGE CONTRACTS, OR TO EXPECT ADDITIONAL TAX
INCENTIVES IF THEY DELAYED INVESTMENT.

6. IN A SIMILAR VEIN, WE NOTE SCHMIDT'S BRIEF CALL FOR
MORE INTENSIVE SALT-RELATED CONSULTATIONS BETWEEN THE
U.S. AND THE ALLIES, ANOTHER THEME THAT WE HAVE HEARD
BEFORE AND WILL HEAR AGAIN.

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AMCONSUL STUTTGART

USMISSION USBERLIN

USMISSION USNATO

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7. ON OTHER INTERNATIONAL ISSUES, SCHMIDT PAINTED WITH A BROAD BRUSH. HIS REMARKS ON THE MIDDLE EAST HAD SOMETHING FAVORABLE FOR EVERY PARTY -- EGYPT, ISRAEL, THE PALESTINIANS, AND THE U.S. AND USSR. HIS COMMENTS ON THE CONFIDENTIAL

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HORN OF AFRICA STRESSED THAT THE FRG WOULD ABSTAIN FROM ARMS SHIPMENTS AND INTERVENTION, AND EXPECTED OTHERS TO DO LIKEWISE. HIS COMMENTS ON EASTERN EUROPE MADE CLEAR THAT THE FRG IS CONDUCTING ACTIVE GOVERNMENTAL AND PERSONAL RELATIONS WITH THE WARSAW PACT STATES, AND THAT HE, SCHMIDT, FINDS THESE DEFINITELY IN THE NATIONAL INTEREST. HIS STATEMENTS ON BERLIN AND ON INNER-GERMAN RELATIONS WERE GENERAL, STRESSING THE IMPORTANCE OF BERLIN AND GIVING THE QUADRIPARTITE AGREEMENT HIS STRONG POSITIVE ENDORSEMENT.

8. SCHMIDT'S HANDLING OF CONTROVERSIAL DOMESTIC ISSUES SERVED BASICALLY TO UNDERSCORE THE POSITIVE, AND TO MAKE IT CLEAR THAT HE, SCHMIDT, SEES THESE ISSUES FROM A STATESMAN'S VANTAGE AS SEVERAL AMONG THE MANY GLOBAL AND DOMESTIC SUBJECTS WITH WHICH HE IS CONCERNED. HIS COMMENTS ON THE LUTZE CASE CONTAINED HIGH PRAISE FOR LEBER AND CALLED, IN EFFECT, FOR MORE COMPASSION FOR THE DEFENSE MINISTER, REMINDING THE GERMAN AUDIENCE THAT SPY CASES HAVE AFFLICTED ALL MAJOR PARTIES AT ONE TIME OR ANOTHER AND INVARIABLY "HAPPEN ON SOMEONE'S WATCH." (SCHMIDT'S SUBSEQUENT EXTEMPORANEOUS STATEMENT THAT HE HAD KNOWN ABOUT THE LUTZE CASE FROM THE BEGINNING WILL BE COVERED IN A SEPARATE MESSAGE UPDATING DEVELOPMENTS RELATING TO DEFMIN LEBER.) HIS REMARKS ON TERRORISM WERE MADE FROM A DEFENSIVE POSITION, SINCE HIS PARTY -- THE SPD -- IS CURRENTLY DIVIDED ON WHICH LEGISLATION TO PURSUE. ACCORDINGLY, SCHMIDT UNDERSCORED THAT NEW LAWS WERE BUT ONE FACTOR IN THE COMPLEX TERRORISM EQUATION. HIS COMMENTS ON THE STRAUSS BUGGING AFFAIR WERE LARGELY PRO FORMA, RECOGNIZING THAT THE PARTISAN DRAMA ON THIS MATTER WILL UNFOLD IN OTHER FORA.

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9. IN ALL, THE UNDERLYING THEME OF SCHMIDT'S SPEECH WAS STATESMANSHIP. HIS DOMESTIC MESSAGE WAS THAT HE IS A STEWARD WHOSE RESPONSIBILITIES TRANSCEND THE MORE LOCAL CONCERNS OF HIS PARTISAN CRITICS. TO HIS FOREIGN AUDIENCE, HIS MESSAGE WAS THAT THE FRG, AND SCHMIDT IN

PARTICULAR, WILL BE MAJOR FACTORS ON THE WORLD SCENE IN
THE PERIOD AHEAD.
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